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TITLE: THE RELATIONSHIP AMONG SELECTED MACROECONOMIC VARIABLES AND ISTANBUL STOCK EXCHANGE (ISE) IN TURKEY

ABSTRACT

The macroeconomic variables selected for Turkish economy in this study are; monthly data from 1992:01 and 2012:06 period, Istanbul Stock Exchange-100 Index, Industrial Production Index, Inflation, Interest Rate, Exchange Rate, Export, Petroleum Price and Gold Price. The effect of the selected macroeconomic variables on stock prices are investigated by using Zivot-Andrews, Lee-Strazicich and Carrion-i-Silvestre unit root tests and Gregory-Hansen and Maki cointegration tests which take into consideration the structural breaks. Coefficients are determined using dynamic least squares method. Finally, Granger causality relation between variables is investigated using Toda-Yamamoto tests.

The empirical results obtained from the study were as follows: firstly, it is observed that series contain unit root and they are cointegrated. It is determined that the relation between stock prices and industrial production, inflation, exchange rate and petroleum prices is positive; relation between interest rate, export and gold prices is negative. Also obtained that negative and significant effect of the 2001 crisis, Turkey's economy. Finally, it is seen that there is bidirectional causality with exchange rate of stock prices and export; unidirectional causality from stock prices through inflation and petroleum prices; and unidirectional causality from industrial production and interest rate through stock prices.

Effective market hypothesis asserts that stock prices in an effective market cannot be predicted. Arbitrage pricing model is concentrated on effects that effects this market to be able to predict stock prices. According to the results of this work, investors in Turkey may have enough knowledge about stock prices by following macroeconomic variables in this work.

KEYWORDS

Macroeconomic Variables, Structural Break, The Istanbul Stock Exchange (ISE), Toda-Yamamoto Causality, Cointegration, Turkey.